MEMORANDUM

TO: Members of Cities Aggregation Power Project, Inc. and South Texas Aggregation Power Project, Inc.

FROM: Board of Directors, Cities Aggregation Power Project, Inc. (“CAPP”)
Board of Directors, South Texas Aggregation Power Project, Inc. (“STAP”)

DATE: September 10, 2008

SUBJECT: Risks and Considerations Disclosure to CAPP and STAP Members Potentially Participating in the Long Term Power Purchase Agreement -- **MUST BE ACKNOWLEDGED BY EACH PARTICIPATING MEMBER**

This disclosure memorandum is intended to discuss some of the risks and considerations involved in (i) the proposed long term power purchase agreement (“PPA”) between CAPP and Luminant Generation Company, LLC, Big Brown Power Company LLC and Oak Grove Management Company, LLC (collectively, “Seller”) to provide electric capacity and energy to the members of CAPP who choose to participate in the financing of the PPA (“Participating Members”) and (ii) the proposed CAPP-Participating Member Energy Sales Contract (the “Member Contract”), by which a Participating Member participates in the PPA. Such risks and considerations are not organized in any particular order of importance and each potential Participating Member must review and assess the whole of this memorandum.

THIS MEMORANDUM IS NOT INTENDED TO PROVIDE A DETAILED EXPLANATION OF THE PPA MEMBER CONTRACT OR CAPP CONTRACT REVENUE BOND TRANSACTION OR TO PROVIDE AN ECONOMIC AND BUSINESS ANALYSIS OF SUCH TRANSACTION.

THIS MEMORANDUM IS NOT, AND IS NOT INTENDED TO BE, A COMPLETE DISCUSSION OF ALL MATERIAL RISKS AND CONSIDERATIONS INVOLVED WITH THE PPA AND THE MEMBER CONTRACT. NO REPRESENTATION IS MADE BY CAPP, STAP OR THEIR RESPECTIVE LEGAL COUNSELS AND OTHER CONSULTANTS THAT ALL MATERIAL RISKS AND CONSIDERATIONS ARE DISCUSSED OR DESCRIBED IN THIS MEMORANDUM.

Each potential Participating Member is advised to undertake its own assessment of the PPA, the Member Contract and the contemplated transactions described therein and herein.

Copies of the most current forms of the PPA and the Member Contract are available from CAPP. In addition, this memorandum references certain external documents, reports and filings which CAPP will assist any potential Participating Member in obtaining; however, neither CAPP, STAP, their respective legal counsel and other consultants make any representation or warranty with respect to the information, statements or analysis contained in any such sources, as of the date of any such source or as of the date of this memorandum.

RISKS AND CONSIDERATIONS

<u>PPA</u>

<u>*Seller's Leveraged Buyout and Security for Seller's Obligations under PPA*</u>

Seller's ultimate parent entity, Energy Future Holdings Company ("EFH"), Energy Future Competitive Holdings Company ("EFCH") and Texas Competitive Electric Holdings Company, LLC ("TCEH"), borrowed approximately $46 billion in October 2007 to privately purchase, through a leveraged buyout, the publicly traded TXU Corp. ("TXU"), formerly the largest electric utility holding company within ERCOT (the "EFH LBO"). Approximately $26 billion was borrowed from Citibank, N.A., Goldman Sachs Credit Partners L.P., J. Aron & Company, JPMorgan Chase Bank, N.A., Credit Suisse and other lenders and parties who were provided a first lien security interest in the assets (excluding assets related to Oncor Electric Delivery Company, LLC), Seller and the certain other TCEH affiliates and subsidiaries (collectively, "TCEH Pledged Entities"), including all generation assets formerly owned by TXU. Another approximately $20 billion was borrowed through unsecured debt of EFH and TCEH. EFH, TCEH and EFCH each have credit ratings below investment grade or "junk" ratings.

For a more complete description of the EFH LBO, EFCH and the associated credit ratings, see the presentation entitled "Energy Future Holdings Post Merger Overview," dated January 7, 2008; the publicly available filings of EFH with the U.S. Securities and Exchange Commission (www.energyfutureholdings.com/financial/) (the "SEC Filings"); and the Standard and Poor's Ratings Service ("S&P") reports of July 15, 2008 and March 21, 2008 (to the extent not superseded by the July 15, 2008 report) relating to EFH and the S&P report of October 11, 2007 (to the extent not superseded by the July 15, 2008 and March 21, 2008 reports) relating to TCEH (collectively, the "S&P Reports"). As to the S&P Reports, such reports reflect only the view of S&P, and CAPP makes no representation as to the appropriateness of such reports. There is no assurance that any of the facts, views or opinions reflected therein will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P, if in the judgment of S&P, circumstances so warrant.

The first lien security interest of the secured lenders/parties are governed by the various documents related to the EFH LBO financing, including the Credit Agreement, the Intercreditor Agreement, the Security Agreement, the Guarantee and the Pledge Agreement as well as other documents (collectively, the "LBO Financing Documents"). The PPA provides, as it relates to CAPP's rights and security with Seller, as follows (for purposes of this paragraph, undefined capitalized terms will have the meanings set forth in the aforementioned Intercreditor Agreement):

1. The PPA is a Secured Commodity Hedge and Power Sales Agreement under the Intercreditor Agreement and, under the LBO Financing Documents, the PPA is a Secured Obligation having a first lien security interest in the pledged assets of the TCEH Pledged Entities *pari passu* (on equal footing) with the other secured lenders. Thus, CAPP will have a

first lien on all pledged assets of the TCEH Pledged Entities including the Martin Lake, Big Brown and Oak Grove electric generation plants (the three electric generation facilities from which the unit contingent electric energy under the PPA are to be provided and collectively referred to as the "PPA Facilities") as well as Comanche Peak, the two unit nuclear electric generation plant near Glen Rose, Texas and other electric generating facilities owned by the TCEH Pledged Entities.

2. Each TCEH Pledged Entity has executed the Guarantee, guaranteeing the Secured Obligations of any other TCEH Pledged Entity, and such guarantee obligation is also a Secured Obligation. The PPA, as a Secured Obligation, is entitled to the benefits of the Guarantee.

3. The obligations of Seller under the PPA will be secured by an additional guaranty from TCEH.

If Seller defaults under the PPA, CAPP would have a right to allege a default (under the LBO Financing Documents, e.g., the Credit Agreement) pursuant to the Intercreditor Agreement. (A payment default by Seller under the PPA is an event of default under the Credit Agreement to the extent such default exceeds $200 million; it is assumed that a Seller default under the PPA would exceed such amount through the term of the Credit Agreement of October 2014.) The Intercreditor Agreement provides, however, that it will be up to the Collateral Agent to declare a default. The Collateral Agent could be overruled or as the case may be, directed to initiate proceedings, by a majority of the secured lenders, but CAPP will likely have no real influence over such vote. If Seller defaults under the PPA, CAPP, it is assumed, may proceed against Seller, and against TCEH under its guaranty as an unsecured claim.

The Credit Agreement provides certain protections to the various secured parties under the LBO Financing Documents, including CAPP, wherein the TCEH Pledged Entities have covenanted and agreed to certain borrowing and lien structure restrictions giving the secured parties (and permitted future secured parties) some degree of anti-dilution protection. Reference is made to Article 10 of the Credit Agreement for the various negative covenants of the TCEH Pledged Entities relating to future borrowings and lien structures.

The remaining term of the Credit Agreement is approximately six (6) years and ends in October 2014. Therefore, prior to October 2014, the EFH LBO must be refinanced and the secured parties paid (or otherwise participate in such refinancing), with the exception of CAPP. CAPP, through the PPA, will be the sole secured party under the LBO Financing Documents whose agreement extends past October 2014 (the term of the PPA is through December 2032).

TCEH has represented that, under the LBO Financing Documents, the TCEH Pledged Entities have an obligation to repay at least one percent (1%) of the secured debt annually. It is not known how much additional debt the TCEH Pledged Entities may incur between now and 2014, and CAPP can make no assurances with respect thereto.

If CAPP and Seller each meet their respective obligations under the PPA, the security provisions related to the Seller's obligations under the PPA should not be an issue, other than security to CAPP for Seller's future performance under the PPA. The security for the Seller's obligations under the PPA becomes critically important if Seller fails to perform under the PPA or otherwise defaults under the PPA.

Article 9 of the PPA addresses the security for Seller's obligations under the PPA and reference is made to that article. Within Section 9.2 of the PPA, Seller may, in certain circumstances, substitute the pledged collateral with other collateral such as letters of credit, cash or a guaranty from an investment grade rated guarantor ("Substitute Collateral"). Additionally, Section 9.2 of the PPA provides for Seller to refinance the existing LBO Financing Documents and replace the existing collateral pursuant to a new financing package with new collateral ("New Collateral Refinancing") which permits some dilution from value of the security under the LBO Financing Documents existing immediately prior to such refinancing, and which provides CAPP with a first lien on equal footing with other lenders (subject to other liens which may be permitted by the documents related to the New Collateral Refinancing).

Seller's Financial Strength and Resources through the Term of the PPA

Fundamental to any decision to participate in the transactions contemplated in the PPA and the Member Contract is the financial viability of Seller and the TCEH Pledged Entities over the term of the PPA. While Seller's obligations under the PPA are secured by a first lien security interest in certain assets of the TCEH Pledged Entities, Seller's ability to meet its obligations under the PPA are dependent on its financial resources and viability to perform (as well as its willingness to do so). No assurances can be given regarding the financial strength or viability of Seller, TCEH or the other TCEH Pledged Entities or the ability of such entities to meet their obligations with respect to the PPA and the LBO Financing Documents.

Limitation of Remedies; Damages Available under the PPA

The PPA does not provide for the agreement to be enforced by specific performance against either party thereto (i.e., a court directing (i) Seller to meet their obligations to provide electric energy and capacity under the terms of the agreement or (ii) CAPP to accept and pay for electric energy under the terms of the agreement). To the extent a default is declared and such default is not cured, Seller and CAPP have limited remedies.

It should be noted that if Seller fails to schedule energy for CAPP from the PPA Facilities when such facilities are available or to otherwise provide alternate energy, Seller is required to pay CAPP "liquidated damages" equal to the cost of any replacement energy acquired by CAPP to replace the electric energy withheld by Seller less the energy price as provided in the PPA ("Replacement Damages"); provided, however, Seller's withholding energy, for extended or repeated occasions, is a default under the PPA and CAPP may terminate the PPA in such an event.

The PPA provides a similar provision if CAPP fails to take and pay for electric energy. CAPP is required to pay Seller "Resale Damages" equal to the positive difference, if any, between the energy price as provided in the PPA less the sales price realized by Seller selling such electric energy; provided, however, CAPP's failure to pay for such electric energy, for extended or repeated occasions, is a default under the PPA and Seller may terminate the PPA in such an event. As CAPP will have paid 3/5 of the total electric cost under the PPA as a capacity payment, CAPP believes it is a remote possibility that Resale Damages will ever occur.

Seller and CAPP have also agreed on liquidated damages that do not reflect the actual economic loss of either party at the time of termination of the PPA as a result of a default. The amount of such liquidated damages is explained below.

Upon a Seller default under the PPA and CAPP's election to terminate the PPA, the parties have agreed to liquidated damages through the payment of a Buyer Termination Payment (provided in Article 12 of the PPA and reference is made to such article). Liquidated damages, being the Buyer Termination Payment, is provided to be the amount equal to (i) the percentage of the principal amount of the outstanding CAPP contract revenue bonds from the initial capacity payment made to Seller under the PPA related to the total initial principal amount of the CAPP contract revenue Bonds (Seller is not responsible for any costs of issuance or reserve fund portions of the CAPP contract revenue bond issue) (such percentage amount is referred to as "Seller's Bond Portion"), (ii) plus the greater of (a) the "make whole premium" related to the Seller's Bond Portion or (b) CAPP's economic damages, capped at $120 million ratably declining over the term of the PPA and (iii) less the aggregate amount of any Replacement Damages paid by Seller to CAPP over (1) the immediately preceding three (3) year period prior to any New Collateral Refinancing or (2) the immediately preceding five (5) year period following a New Collateral Refinancing.

Under the PPA, Seller has the ability to make termination of the agreement more likely by defaulting if it determines that it can enter a more economically advantageous transaction by paying CAPP the Buyer Termination Payment.

Upon a CAPP default under the PPA (presumably related to unmitigated non-appropriations by Participating Members resulting in CAPP's inability to pay Seller for electric energy under the PPA) and Seller's election to terminate the PPA, the parties have agreed to liquidated damages through the payment of a Seller Termination Payment (provided in Article 12 of the PPA). Liquidated damages, being the Seller Termination Payment, is provided to be the amount equal to (i) Seller's economic damages, capped at $120 million ratably declining over the term of the PPA, (ii) plus the present value of unpaid New Governmental Charges (as defined below) for which CAPP is responsible, (iii) less the aggregate amount of any Resale Damages paid by CAPP to Seller over certain time periods in the PPA, and (iv) plus an amount equal to the unearned portion of the CAPP capacity payment to Seller, determined on a monthly straight line amortization (as opposed to the actual bond amortization schedule) over the term of the PPA. In such an event of CAPP default, CAPP would not be able to defease all of its contract revenue bonds and a portion of each Participating Member's capacity payments under the CAPP-Participating Member Contract will remain, even though such Participating Members will not receive any electric energy through the then terminated PPA.

Value of Seller's First Lien Security Interest Assets

CAPP is not aware of any asset valuation of the TCEH Pledged Entities' collateral undertaken with respect to the EFH LBO financing and there has been no current valuation relating to the PPA. CAPP cannot make any representation regarding the current or future value of collateral pledged under the LBO Financing Documents.

Because the cost of electricity within ERCOT has historically been based on the cost of natural gas as a fuel source, it is assumed the value of the electric generation facilities comprising a substantial portion of the collateral pledged under the LBO Financing Documents, at any point in time, will depend heavily upon the price of natural gas and the assumptions related to the future prices of natural gas. Natural gas prices have been historically volatile and no prediction or estimate can be made regarding the future value of pledged collateral of the TCEH Pledged Entities.

If the value of Seller's assets pledged as security under the PPA decreases, there is no requirement in the PPA for Seller to provide additional collateral to CAPP, and CAPP could experience the situation where the value of the collateral under the LBO Financing Documents is insufficient to cover the Secured Obligations under the LBO Financing Documents, including the PPA. If in the event of Bankruptcy, CAPP decides to terminate the PPA and collateral is insufficient to cover CAPP's security, CAPP would not be able to defease all of its contract revenue bonds and a portion of each Participating Member's capacity payments under the Member Contract will remain, even though such Participating Member will not receive any electric energy through the then terminated PPA.

New Governmental Charges

Under Article 20 of the PPA, CAPP and the Participating Members will be responsible for new governmental charges (taxes and required capital improvements at the PPA Facilities), which include the cost of potential carbon and green house gas remediation and taxes, assessments and other governmental impositions and compliance costs imposed on the PPA Facilities ("New Governmental Charges"). Certain taxes, such as income, employment and margin taxes are excluded.

To the extent these charges are imposed on the PPA Facilities (all of which will be providing electricity to CAPP under the PPA), CAPP and the Participating Members will be responsible for a proportionate share of the cost of any such New Governmental Charges in excess of operating expenses of $100,000 annually or capital expenses greater than $1,000,000 over the term of the PPA. Such share of the PPA Facilities allocated to CAPP is approximately three percent (3%). To the extent these New Governmental Charges are imposed, the annual energy cost for which each Participating Member is responsible will increase to cover the proportionate share of such charges.

In the event of a default by CAPP and the PPA's termination, part of the Seller Termination Payment CAPP will be required to pay will be an amount relating to New Governmental Charges. It is important to understand that a termination of the PPA under circumstances of a CAPP default may result in a substantial portion of the CAPP bonds remaining outstanding. In the event of a default by Seller and the PPA's termination, CAPP will not be responsible for any continuing New Governmental Charges.

Risk of Non-Appropriation by Participating Members

The capacity payment from CAPP to Seller under the PPA purchases the electric capacity associated with the contract electricity and is approximately 3/5 of the total cost of electricity under the agreement. The annual capacity charge paid by each Participating Member under the Member Contract will be used to support the CAPP contract revenue bonds. These annual capacity charges will be secured by a pledge of the Participating Member's ad valorem taxes, will be debt under State law and will not be subject to non-appropriation.

The annual energy payment, that is the remaining approximately 2/5 of the total cost of electricity under the PPA, is not secured by taxes, but is subject to annual appropriation by each Participating Member. Under the PPA, CAPP is obligated to purchase electric energy on an annual basis and pay for such electric energy. Under the Member Contract, a Participating Member will make its annual determination whether to purchase such electric energy to which it is entitled (pursuant to its acquisition of a portion of the electricity rights CAPP has obtained under the PPA). This purchase is subject to annual appropriation and dependent on each Participating Member appropriating funds in its annual budget for its share of electric energy under the Member Contract.

If a Participating Member fails to appropriate in any year, CAPP should have three options to either mitigate or eliminate the potential negative consequences of any such non-appropriation. CAPP presently believes its options include: (i) selling the available electric energy to other Participating Members (or the non-appropriating Participating Member assigning its rights to a willing and appropriating Participating Member); (ii) selling the electric energy into the ERCOT wholesale market through a series of short-term sales; or (iii) requesting Seller to resell the energy. It is anticipated that these options should effectively mitigate the risk of isolated non-appropriation of a small amount of CAPP's electric energy load (recognizing that only 2/5 of the electric energy's cost needs to be realized through such mitigating options). These mitigating options, however, only contemplate isolated non-appropriation by a small number of Participating Members.

If non-appropriation occurs by a significant number of the Participating Members affecting a significant portion of CAPP's aggregated electric load under the PPA, such occurrence may result in CAPP defaulting under the PPA. The most likely reason for such wide scale non-appropriations would be that the cost of the electric energy portion under the PPA and the CAPP-Participating Member Contract is more than the then projected market price for electric energy for an extended period.

In the event that CAPP defaults under the PPA as a result of the failure by some Participating Members to appropriate funds for the purchase of electricity, Seller may declare a default under the PPA and terminate the agreement. In such event, none of the Participating Members will receive electricity under the PPA, without regard to whether a particular member appropriated or non-appropriated for electric energy. Further, no Participating member will have a claim for damages against CAPP.

If CAPP could not sell the electric energy, as described above, TCEH would have the ability to terminate the PPA and demand a Buyer Termination Payment from CAPP, as explained above in the section "PPA – Limitation of Remedies; Damages Available Under the PPA." This situation would leave the Participating Members with some portion of their debt under the CAPP Participating Member Contract remaining outstanding and the Participating Members would not receive any electric energy under the PPA.

Defeasance of CAPP's Bonds Will Not Be Realized if Seller Defaults in Certain Events

In the event of a Seller default, the Seller will only be responsible for the Seller Bond Portion and, at least the "make whole redemption premium" related thereto. Funds from a Buyer Termination Payment will only partially defease the CAPP contract revenue bonds – the portion of CAPP bonds issued relating to any reserve fund for the CAPP bonds or the portion issued to pay costs of issuance of the CAPP contract revenue bonds will remain outstanding. Under this scenario, the Participating Members could be in a situation where they are levying and collecting an ad valorem tax to make their capacity payment (debt service obligation) to CAPP under the CAPP-Participating Member Contract, although they may no longer be receiving any energy under the PPA. If this were to occur, there is the potential for Participating Members to collectively be responsible for up to approximately $12 million of CAPP's remaining contract revenue bonds.

Seller has the ability to offset a portion of the Buyer Termination Payment under the PPA by paying Replacement Damages to CAPP when Seller fails to schedule energy from the units when such energy is available. Such Replacement Damages paid (1) the immediately preceding three (3) year period prior to any New Collateral Refinancing or (2) the immediately preceding five (5) year period following a New Collateral Refinancing will be subtracted from any Buyer Termination Payment owed by Seller. Seller receives a rolling three to five year credit for such Replacement Damages payment, while reducing the potential Buyer Termination Payment to CAPP.

As TCEH=s credit ratings improve, a portion of the amount secured by the first lien security interest decreases in an amount equal to the Credit Threshold (as defined in the PPA). Therefore, if TCEH, as guarantor, were to become more credit-worthy and yet still declare bankruptcy and CAPP terminates the PPA, a portion of the Buyer Termination Payment due to CAPP (the make-whole price of CAPP=s contract revenue bonds) will be an unsecured claim (i.e., not secured by the first lien security interest under the LBO Financing Documents) and CAPP will not have the benefit of the other secured creditors. While the Credit Threshold gives Seller an economic incentive to improve its financial integrity and thus reduce the financial risk to CAPP, it could also serve to expose CAPP to unsecured credit risk by reducing the amount of CAPP's first lien security.

New Collateral Refinancing/Substitute Collateral

As discussed earlier, CAPP cannot control or predict the future ownership or structure of Seller or the TCEH Pledged Entities. As the LBO Financing Documents expire in October 2014 and will likely be refinanced in some fashion (otherwise the PPA will have been terminated or otherwise secured by Substitute Collateral), no assurances can be given regarding the financing structure related to the New Collateral Refinancing, the value and nature of any related new collateral or the amount and nature of any related debt secured by such collateral. While provisions relating to Substitute Collateral seem to contemplate substitution that is applicable only to CAPP, the PPA does not specifically require such.

The New Collateral Refinancing provision in the PPA, Section 9.2(b), provides that the EFH LBO and the LBO Financing Documents will be refinanced and collateral under the LBO Financing Documents may be replaced with "substantially similar" collateral (to the collateral existing immediately prior to such refinancing) on a continuing "*pari passu*" first lien basis with other lenders. The PPA provides, however, that such lien may be subject to other liens provided for in the documents related to the New Collateral Refinancing.

The PPA provides that the collateral related to a New Collateral Refinancing shall be substantially similar in substance to the collateral existing immediately prior to such refinancing as reasonably determined by Seller in good faith. Further, collateral meeting prescribed dilution tests will be automatically deemed to be "substantially similar." While the dilution tests obligate Seller to maintain an asset valuation to debt ratio equivalent to the ratio in play today, it must be noted that the test functionally excludes swap and hedge transactions of TCEH Pledged Entities. Various TCEH Pledged Entities may continuously and actively engage in such transactions. With such swap and hedge transactions excluded, the protection provided to CAPP by the dilution test cannot be determined until a New Collateral Refinancing occurs. CAPP may be obligated to accept the New Collateral Refinancing securing Seller's obligations under the PPA that may be of less value than the collateral under the LBO Financing Documents immediately prior to such refinancing.

Additionally, the TCEH guaranty of the Seller's obligations under the PPA is required to be in place for the entire term of the PPA and it is anticipated such guaranty will be secured by the collateral relating to the New Collateral Refinancing Substitute Collateral or other acceptable collateral. However, if such guaranty is not secured, CAPP has potential unsecured credit exposure to the extent CAPP must rely on such TCEH guaranty for payment of the PPA.

Unit Contingent Nature of PPA; Extended Force Majeure May Prevent Realization of Economic Benefits

Under the PPA, CAPP is entitled to a portion of the electric capacity from each plant comprising the PPA Facilities. Seller's obligation to provide such capacity and electric energy is conditioned on the respective PPA Facilities plants being capable of operating. To the extent there are planned outages or unplanned outages which constitute an event of Force Majeure under the PPA, Seller is not obligated to provide electric energy to CAPP from such affected plants. Sellers are required under the PPA (sections 6.3, 12 and 15.6) to operate and maintain the PPA Facilities according to Prudent Industry Practices, which includes all existing and future Laws. However, CAPP has not undertaken any examination or inspection of the PPA Facilities.

If an event of Force Majeure occurs, such as the destruction of a portion of the PPA Facilities contracted for electric supply under the PPA, Seller is partially excused from performing under the PPA and the rights and obligations under the PPA will be suspended. The Participating Members would not be receiving a portion of the contract energy under the CAPP-Participating Member Contract since Seller is not required to provide electric energy to CAPP under the PPA, and CAPP and the Participating Members would have to find other sources of electric energy (including a "wrap" contract) in the event of an extended Force Majeure, while still being liable to pay for its portion of the capacity payment pursuant to the CAPP-Participating Member Contract.

TCEH/Seller Bankruptcy

If Seller files bankruptcy, this will not happen in a vacuum. It likely will be preceded by months of negotiation with threats of filing bankruptcy. There likely will be ample time to renegotiate the PPA if CAPP so desires.

In the event of bankruptcy, the PPA will remain in effect unless it is specifically set aside. Electricity should continue to be provided by the facilities under contract.

The risks of bankruptcy include:

1. Adequacy of collateral in the event of termination. The PPA contains an *ipso facto* clause providing that bankruptcy is a default, giving CAPP the right to terminate the agreement if it desires. The decision of whether to terminate would depend upon the value of assets and market prices for electricity at the time, neither of which can be predicted by CAPP.

2. Whether the PPA will be regarded as a forward contract or an executory agreement. The PPA specifies on its face that it is a "forward contract," but such statement does not bind a Bankruptcy Court. However, if the contract terms are not honored because the Court concludes the PPA is "executory," the likely result would be a renegotiated price closer to the then market rate. CAPP cannot predict what a future judge with broad discretion may rule.

3. The forum for bankruptcy may be Delaware, rather than Texas. TCEH is a Delaware corporation, but venue for pledged entities may be elsewhere. Competing courts will likely have to resolve a venue contest.

4. Whether the Court will apply a "business judgment" test (favoring Seller) or a "public interest" test (favoring CAPP). It is unknown whether courts would apply a heightened public interest standard for electrical energy supply to political subdivisions.

Other Risks and Considerations

There are other events or developments that could impact the transactions contemplated in the PPA and Member Contract including:

- future regulatory changes, including actions of the State legislature, Public Utility Commission of Texas and ERCOT affecting the competitive electric utility industry;

- future technological advances in electric generation and transmission such as development of new electric generation resources, including new nuclear power plants, higher efficiency coal and natural gas generation plants, high efficiency electric transmission and/or advances in alternative sources of electricity (wind, solar and etc.);

- discovery of additional large scale natural gas reserves or the development of large scale liquefied natural gas ("LNG") facilities in the United States to utilize overseas LNG supplies and transportation facilities and/or a sustained long-term decrease of the price of natural gas;

- future environmental regulation of coal-fired electric generation facilities generally could impact the transaction contemplated in the PPA, including New Governmental Charges; and

- financial markets react to various factors that CAPP can neither predict nor control. Savings protections related to the PPA are dependent upon financing and debt issuance costs that in turn will be influenced by interest rates that will depend upon risk perceptions of financial markets. CAPP can offer no assurances regarding what rates will be applicable when debt is issued or ultimately repaid.

MEMBER CONTRACT

Effect on a City=s Debt/Bonding Capacity

There is a possibility that the contract could have negative credit rating implications on Participating Members.

General discussions with the various credit rating agencies have occurred and will continue taking place to inform them of the transaction so they can make educated credit rating decisions regarding the Participating Members. It is possible that the capacity payment (debt obligation) of the Participating Members under the Member Contract will adversely impact any given Participating Member's bonding capacity and credit rating by any or all of the rating agencies. Each rating agency will have questions and analysis regarding the structure and there has been no definitive answer regarding how each rating agency will view this obligation. It is possible that each rating agency may view this obligation differently.

Subject to Annual Appropriation Obligation May Be Viewed as a General Obligation

In the event of a non-appropriation by a Participating Member, rating agencies may view the provision of energy to a Participating Member's electric accounts as a governmental function. The Participating Member's failure to appropriate may be considered a default by one or more credit rating agency on the Participating Member's general obligation debt, regardless of the fact that a Participating Member has the choice to appropriate or not. Further risks regarding non-appropriation were addressed in section "PPA - Risk of Non-Appropriation by Participating Members" above.

Obligation to Levy Ad Valorem Tax

As discussed in prior sections above, the Member Contract obligates each Participating Member to pledge ad valorem taxes to pay for its portion of the capacity payment that CAPP is paying to Seller to acquire energy capacity over the 24 year term of the PPA. The capacity payment under the Member Contract is a debt of the Participating Member municipality which is subject to enforcement by a mandamus action brought by the trustee related to CAPP's contract revenue bonds against a Participating Member municipality to levy taxes sufficient within the limits prescribed by law to make such payments.

In the event of a termination of the PPA, there are a number of situations in which CAPP would not be able to defease all of its contract revenue bonds and a portion of each Participating Member's capacity payments under the CAPP-Participating Member Contract would remain, even though such Participating Member will not receive any electric energy through the then terminated PPA. Such situations are discussed above.

Acknowledgment

This Disclosure Memorandum dated September 10, 2008 is acknowledged and accepted by the undersigned on behalf of the Participating Member indicated below. The governing body of such Participating Member has taken official action acknowledging its understanding of the risks and considerations discussed or described in this Disclosure Memorandum and has formally authorized and directed the undersigned to execute this Disclosure Memorandum on behalf of the Participating Member.

____
Participating Member

By: ________________________________

Title: ________________________________

Date: ________________________________